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GPS EMEA Investment Strategy

Market wrap

April 2026

Capital at risk. The value of investments and the income from them can fall as well as rise and are not guaranteed. Investors may not get back the amount originally invested.

Key takeaways:

- The Middle East conflict has caused significant volatility in financial markets, as investors have repositioned portfolios for an outlook of higher inflation and potentially higher-for-longer interest rates. The broad selling of assets led to some counterintuitive moves, particularly in gold and defence stocks.
- Rising energy prices are adding to inflation concerns and complicating central bank interest rate decisions. This fed into bond markets during the month, particularly in the UK, with bond prices reflecting expectations that rising inflation will spur central banks to keep interest rates at current levels for longer or possibly even raise them.
- Inflation and employment data will be key to assessing the economic impact of the energy shock. Investor attention will also turn to company earnings reports – particularly forward guidance from companies on their expectations for revenue and profit levels for the rest of the year and whether these have been impacted by the Middle East tensions.

Middle East tensions trigger volatility

Recent developments in the Middle East have continued to influence financial markets, although reactions are not always straightforward. In the days following the start of the conflict, gold and European defence stocks – which one might have expected to see increased interest and price gains in this environment – fell by nearly 4%.[1]

At first glance, this appears surprising. Gold is typically seen as a 'safe haven' during uncertain times, and geopolitical tensions would normally be expected to support defence-related companies. One explanation lies in how investors react during sudden market shocks. When uncertainty rises sharply, many large investors tend to quickly reduce risk in their portfolios by reducing holdings and moving into liquid assets like cash or cash equivalents. Rather than selling specific assets, they often trim positions across their portfolios. This means that assets which have performed strongly – such as gold – can be sold more heavily, regardless of their longer-term outlook.

Gold had a strong run in 2025. The precious metal saw record inflows[2] and prices reached new record highs more than 50 times during the year[3], reflecting sustained demand during a period of economic and geopolitical uncertainty, including by central banks. The latter remains a key tailwind for gold, in our view, and despite short-term price movements, we believe it's likely to continue playing an important role in managing portfolio risk.

Central banks face a more complex inflation outlook

Inflationary pressures derived from the conflict in the Middle East have made the environment more complex for central banks. At their March meetings, the US Federal Reserve (Fed), European Central Bank (ECB), and Bank of England (BoE) all kept rates unchanged but sounded more cautious in their notes, signalling they are concerned about energy prices keeping inflation elevated. Their main tool to control inflation is interest rates. When inflation is too high, they raise rates to make borrowing more expensive and encourage saving instead of spending, which helps cool demand and slow price increases. When inflation is falling, they can cut rates to support economic growth.

The BoE recently signalled a greater willingness to raise interest rates than markets had expected. This prompted investors to sell UK government bonds (gilts), pushing prices lower. As bond prices fall, the return available to investors (known as the yield) rises, reflecting expectations that interest rates may stay higher for longer. Similar moves were seen across other European government bond markets, and although conditions have since stabilised, this repricing contributed to increased market volatility during the month.

Events on our radar in April

Looking ahead, two things matter most, in our view. Firstly, how the Middle East situation evolves – especially whether any disruption to energy supply proves temporary or more persistent. Investors expect higher energy prices to add to inflation, but the key question is by how much and whether this starts to weigh on economic growth. Upcoming data prints like inflation and employment will be key to tracking the economic impact of the conflict.

Secondly, the upcoming earnings season – where companies report their financial results and outlooks – will also offer insights into how companies are reading the situation.

1 Source: Bloomberg, using the LBMA Gold Price and the S&P Aerospace & Defense Select Industry Index, respectively, as of 5 March 2026. **2** Source: BlackRock and Markit, as of 31 December 2025. Flows refer to gold exchange-traded-products at a global level. **3** Source: Bloomberg, as of 31 December 2025.

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Performance of financial markets, 2021–2026 YTD

	2021	2022	2023	2024	2025	2026 YTD
Gold (London Bullion Market Association Gold Price)	-3.64%	-0.28%	13.10%	27.22%	64.58%	9.19%
Defence stocks (S&P Aerospace & Defense Select Industry Index)	1.99%	-5.43%	23.14%	22.37%	45.54%	11.11%
UK government bonds (FTSE Actuaries UK Gilts Index)	-5.16%	-23.83%	3.69%	-3.32%	5.03%	-1.05%
European government bonds (FTSE EMU Government Bond Index (EUR))	-3.54%	-14.49%	-1.42%	5.51%	0.54%	-0.47%

The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results. Index performance returns do not reflect any management fees, transaction costs or expenses. Indices are unmanaged and one cannot invest directly in an index. Source: Bloomberg, as of 31 March 2026.

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